1997-98 SESSION COMMITTEE HEARING RECORDS

Committee Name:

Joint Committee on Finance (JC-Fi)

Sample:

Record of Comm. Proceedings … RCP
- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

- Appointments … Appt
- **

- Clearinghouse Rules … CRule
- **

- Committee Hearings … CH
- **

- Committee Reports … CR
- **

- Executive Sessions … ES
- **

- Hearing Records … HR
- **

- Miscellaneous … Misc
- 97hrJC-Fi_Misc_pt114a_LFB

- Record of Comm. Proceedings … RCP
- **

Transportation

Transportation Finance

(LFB Budget Summary Document: Page 582)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
2	Transportation Infrastructure Loan Program (Paper #811)
3	Federal Highway Aid (Paper #812)
4	Revenue Bonding for Major Highway Construction and Administrative Facilities -- Bonding Authorization (Paper #813)
-	Revenue Bonding for Major Highway Construction and Administrative Facilities -- Bonding Policy (Paper #814)
5	Debt Service Reestimate (Paper #815)
6	Transfer of Surplus Personal Property (see Paper #804)
-	Motor Vehicle Fuel and Alternate Fuel Tax (Paper #816)
-	Motor Vehicle Fuel Tax Indexing Formula (Paper #817)
-	Vehicle Registration Fee Increase -- Automobiles (Paper #818)
-	Value-Based Vehicle Registration Fee for Automobiles (Paper #819)
-	Vehicle Registration Fee Increase -- Trucks (Paper #820)
-	Title Transfer Fee (Paper #821)
-	Motor Vehicle Fuel and Alternate Fuel Tax -- Tax on Diesel Fuel (Paper #822)
-	Motor Vehicle Fuel Tax Exemptions for Off-Highway Uses (Paper #823)
-	General Transportation and Connecting Highway Aid -- Monthly Payments (Paper #824)
-	Transportation Fund Appropriations to Other Agencies (Paper #825)

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Transportation Infrastructure Loan Program (DOT -- Transportation Finance)

[LFB Summary: Page 583, #2]

CURRENT LAW

No provision.

GOVERNOR

Create a transportation infrastructure loan program and transportation infrastructure loan fund. Require DOT to administer the program, in cooperation with DOA.

The bill contains provisions establishing the program's financial structure, requiring DOT to administer the program, authorizing the issuance of revenue bonds for the program, establishing investment management procedures related to the program and requiring the promulgation of administrative rules for the program.

Financial Structure. Establish separate accounts within the transportation infrastructure loan fund related to transit and to highways. Authorize DOA, in consultation with DOT, to establish other accounts within the fund and subsequently make changes to those accounts. Specify that the fund would consist of: (a) monies received from the federal transportation infrastructure bank pilot program for transit or highway projects; (b) state funds appropriated to the program or transferred from other appropriations to meet federal matching requirements; (c) principal and interest payments on loans from the fund; (d) proceeds from revenue obligations issued for the program; and (e) gifts, grants and bequests to the fund.

Create the following continuing appropriations from the fund to segregate program expenditures by the various funding sources: (a) a SEG-S appropriation of all revenues transferred from DOT's freight rail infrastructure improvements, major highway development and state highway rehabilitation appropriations to make loans and provide assistance; (b) a SEG appropriation from otherwise unappropriated fund revenues (this would include proceeds from the sale of revenue obligations, investment earnings of the fund and any other undesignated revenues) to make loans, provide assistance, reimburse the cost of issuing and managing revenue obligations, and provide reserve funds; (c) a FED appropriation of all federal funds received for the program to make loans and provide assistance; (d) a SEG-L appropriation of all repayments of principal and interest from local governments to make loans, provide assistance, retire revenue obligations, provide reserve funds and administer the program; and (e) a SEG appropriation of all revenues from gifts, grants and bequests to be used for the purposes for which made.

DOT Program Responsibilities. Authorize DOT to make loans and provide other assistance to local governments for highway and transit capital projects and to enter into agreements with the U.S. Department of Transportation to receive capitalization grants under the transportation infrastructure bank pilot program (PL 104-59, Section 350), which allows states to provide assistance in the form of loans, credit enhancements, interest rate subsidies or other financial assistance to local governments for highway and transit capital projects. Require loans and assistance under the state program to comply with federal laws, regulations, guidelines or policies. Authorize DOT to transfer monies from the existing appropriations for freight rail infrastructure improvements, major highway development and state highway rehabilitation to meet state matching requirements under federal law. Prohibit DOT from making any loans or providing any assistance unless the Secretary of DOA approves the loan or assistance and determines that amounts in the fund plus anticipated revenues are sufficient to fully repay principal and interest on the program's outstanding revenue obligations.

Revenue Obligations. Authorize the Building Commission to contract for revenue obligations for the program when it reasonably appears that the obligations can be fully paid on a timely basis from monies received or anticipated to be received by the fund. Limit the amount of obligations under the program to $100, excluding obligations issued to refund outstanding revenue obligations. (Once the program's revenue needs are known, the Administration intends to request a higher bonding level.) Authorize DOA to allow fund revenues to be deposited in a separate state fund or an account maintained by a trustee outside the state treasury, in order to guarantee the repayment of revenue obligations. Specify that revenues deposited with a trustee are the trustee's revenues. Authorize the Building Commission to pledge any portion of the revenues in the separate state fund or in the transportation infrastructure loan fund to be used to secure the program's revenue obligations. Authorize DOA to enter other agreements related to providing additional security for the program's revenue obligations.

Investment Management. Authorize DOA to direct the State of Wisconsin Investment Board in the investment of fund revenues and the collection of principal and interest on monies loaned or invested from the fund. Specify that in making such an investment, the Board must accept any reasonable terms and conditions specified by DOA and that the Board is relieved of any obligations relevant to prudent investment of the fund. Allow DOA to purchase, acquire, sell, dispose of or create a security interest in loans under the program. Provide that the disposition may be at the price and terms believed to be reasonable by DOA and may be made at public or private sale. Provide that all of the following conditions must occur before DOA may take any of these actions: (a) the action provides a financial benefit to the fund; (b) the action does not contradict or weaken the purposes of the fund; and (c) the Building Commission approves the action before DOA acts.

Administrative Rules. Require DOA and DOT to promulgate rules necessary to administer the program, including the terms and conditions of loans and assistance and the criteria for determining eligible applicants and projects. Require the eligibility criteria to include: (a) the impact of a project on accelerating the completion of a major highway development project; (b) the statewide and local economic impact of a project; (c) the level of commitment by the applicant; and (d) the type and quality of intermodal transportation facilities affected by the project. Allow DOA and DOT to charge and collect fees, established by rule, from applicants to recover administrative costs related to the program.

DISCUSSION POINTS

1. The National Highway System Designation Act of 1995 established the State Infrastructure Bank Pilot Program. Under the Act, the U.S. Department of Transportation may enter agreements with states to establish state infrastructure banks or multistate infrastructure banks. The program permits federal funds to be combined with other funds, equal to 25% of the federal amount, and used to leverage other resources and encourage new investment in transportation infrastructure. Federal funds and the matching funds may be combined to make loans, provide credit enhancements, serve as a capital reserve for bond and debt refinancing, subsidize interest rates, issue letters of credit, finance purchase and lease agreements, provide debt financing security or provide other forms of financial assistance to public and private entities for eligible projects. As the funds are repaid, the state infrastructure bank would make new financial assistance available for other projects, thereby continually recycling and leveraging the initial funds.

2. Under the program, $150 million is available for distribution to states selected to participate in the program. The Wisconsin Department of Transportation has submitted an application to participate in the program and requested $22 million in federal funding. Based on the number of other states that have applied, Wisconsin may receive as little as $4.2 million if selected to participate. A federal grant of $4.2 million to $22 million would require matching funds of $1.0 million to $5.5 million.

3. Eligible projects include transit capital projects and construction projects eligible for federal highway aid. Transit capital projects would include the cost of acquiring, constructing, reconstructing and improving facilities, vehicles and equipment used to provide passenger transportation service to the general public on a regular and continuing basis by a

public agency or private firm. Projects under the federal-aid highway program include construction, reconstruction, rehabilitation, resurfacing, restoration and operational improvements for roads and bridges. Projects on local roads or rural minor collectors would not be eligible, but projects on other local roads meeting the collector or arterial classification would be eligible.

4. Under the transit category, DOT's application requested $14 million for two new train sets to be purchased by Amtrak or another service provider in the Milwaukee-Chicago corridor. Infrastructure loan proceeds could be used to reduce the borrowing costs related to the purchase. Currently, Amtrak purchases equipment from General Electric, Inc., through a loan program. New equipment would reduce Amtrak's operating and maintenance costs, for which Wisconsin is partially responsible (although any cost reduction would not affect the state's payments under the current contract with Amtrak). Also, the additional equipment could be used to extend Amtrak service to other parts of the Milwaukee metropolitan area.

5. Under the highway category, DOT requested $8 million for highway projects related to economic development. According to DOT, examples of potential projects include improving access to expanding or relocating businesses, constructing or improving interchanges serving industrial parks, and adding an exit ramp to provide access to new or existing businesses on a highway that is scheduled to be converted to an expressway. Local governments receiving assistance may be able to recover some loan repayment expenses from businesses benefiting from projects.

6. One reason the loan program proposal is included in SB 77 is to demonstrate the state's commitment to operating a loan program to the federal government. Having authorization for the program could improve the likelihood of receiving federal assistance.

7. Many of the provisions in the bill reflect items required by the federal legislation authorizing the program. These provisions pertain to the types of loans or assistance, the establishment and treatment of separate accounts for highway and transit projects and the authorization to charge fees for program administration costs. The Legislature has little discretion over these provisions. Provisions that are not related to federal requirements or where some legislative discretion exists include the source of state matching funds, the definition of assistance recipients and the division of program responsibilities between DOA and DOT.

Source of State Funds

8. Because DOT's application for funding has not yet been approved and the amount the state will receive, if any, is unknown, the bill would not appropriate an amount directly for the loan fund. Instead, the matching funds would either be transferred from DOT's appropriations or be generated by the sale of revenue obligations.

9. The bill would permit funds to be transferred from the three designated DOT appropriations (freight rail infrastructure improvements, major highway development and state

highway rehabilitation) at the discretion of the Department without further legislative approval. This arrangement would provide DOT flexibility in responding to offers of federal assistance.

10. Current law authorizes funds from the freight rail infrastructure improvements appropriation to be used for grants to rehabilitate or construct rail property improvements and for loans to rehabilitate rail lines or to finance economic development or transportation efficiency projects. Eligible recipients include counties, municipalities, county or municipal agencies, railroads, current or potential users of freight rail services, or municipal or county transit commissions. While the program's primary focus is on freight rail projects, eligible projects include line upgrades that increase passenger rail service. Under SB 77, $5,579,800 would be appropriated annually for the freight rail infrastructure improvements program. The program would also be allowed to reuse loan repayments estimated at $1,000,000 in 1997-98 and $1,500,000 in 1998-99. For FY 1998, DOT has received applications for project funding totaling $14.1 million.

11. The major highway development program provides funding for: (a) construction of new highways of 2.5 miles or more in length; (b) relocation of existing roadways of 2.5 miles or more in length; (c) the addition of one or more lanes at least five miles in length; and (d) the improvement of ten miles or more of an existing divided highway to freeway standards. The state highway rehabilitation appropriation provides funding to resurface, recondition or reconstruct existing state trunk and connecting highways and bridges.

12. Major highway development projects enumerated in 1995 are not scheduled to be completed until 2005 to 2008, assuming inflationary increases in the major highway development appropriation. Based on 1995 data, DOT has indicated that 26% of the state highway system is in need of rehabilitation. Based on current funding levels, highway segments are deteriorating to a substandard level faster than segments that are currently substandard are being rehabilitated.

13. Federal funds for highway projects and transit capital costs are currently available to local governments through a variety of state programs. Generally, federal funds comprise 80% of project costs, with the remaining 20% provided by local governments and/or the state. Local governments may be unwilling to participate in the proposed loan program unless they are unlikely to receive funding under an existing grant program.

14. In addition to transferring funds from existing appropriations, the bill would authorize revenue bond authority for the program. Revenue bonds issued for the program would differ from the transportation revenue bonds issued under current law, which are secured by motor vehicle registration fees. The proposed bonds would be secured by transportation infrastructure loan repayments. A similar structure is used for revenue bonds issued for the clean water fund program.

15. The bill would limit the amount of revenue bonds to be issued for the program to $100. If revenue bonds are to be used as the source of matching funds, the $100 amount should be raised. This could be accomplished in future legislation when the match requirement becomes

known. If Wisconsin receives $22 million as requested, bonding authority of at least $5.5 million would be needed to match the federal contribution. However, that level of state revenues may not be sufficient to warrant the issuance of separate transportation revenue bonds for the program.

16. Another potential source of matching funds is proceeds from state general obligation bonds.The Transportation Finance Study Committee, consisting of four legislators, three public members and the Secretary of DOT, was created by 1995 Act 113 to make recommendations regarding appropriate transportation funding sources. The Committee recommended increasing the use of general fund revenues to finance transportation programs.

17. Rather than authorize DOT to transfer funds from specific appropriations or authorize the issuance of transportation revenue bonds, the bill could be modified to remain silent on the source of revenues to be transferred. Provisions under current law that authorize the transfer of revenues between funds could be modified to include transfers to the transportation infrastructure loan fund. Current law allows the Joint Committee on Finance to approve transfers between funds under s. 13.101(4) of the state statutes. One condition for approving a transfer under this provision is that the transfer must result in a more efficient and effective method for performing a program. Transfers may not be approved if legislative intent will be changed and the purposes for which the transfer is requested have not been authorized or directed by the Legislature.

18. DOT's application to the federal government indicated that, in addition to the required matching funds, the Department would transfer other federal highway trust fund receipts to the program. If the Committee does not want the Department to use funds in excess of the 25% required matching contribution, a provision to that effect could be included in the bill.

Assistance Recipients

19. The bill would allow loans and other assistance to be extended to municipalities and counties. The federal legislation authorizes assistance be offered to public and private entities.

20. The bill would not allow a loan to be made to Amtrak for the acquisition of new equipment as requested in DOT's application to the federal government, unless the loan was made to a Milwaukee area local government as an intermediary. If the Committee wants to retain flexibility in providing assistance to Amtrak or another rail service provider, the bill could be modified to include railroads as eligible applicants.

21. The bill would not extend assistance to any private entities, such as private, nonprofit organizations. Currently, private, nonprofit organizations are eligible for grants under the state's elderly and disabled capital assistance program. State funds supplement federal aid to assist private, nonprofit organizations in purchasing vehicles and related equipment to transport the elderly and disabled. DOT is responsible for procuring the equipment on behalf of approved

applicants. If the Committee desires to allow DOT to provide infrastructure loan assistance to similar organizations, the definition of eligible applicants could be modified to include private, nonprofit organizations providing transportation services to the elderly and disabled.

22. A third type of organization that could be included for assistance is a transit commission. Transit commissions can be organized by counties or municipalities and are eligible for assistance under the freight rail infrastructure improvement program. Statutory provisions authorizing transit commissions allow municipalities to extend transit service beyond their civil jurisdictions by joining together to offer service to metropolitan areas.

Division of Program Responsibilities

23. The bill divides program responsibilities between DOT and DOA. DOT would be responsible for general program operations.

24. The bill authorizes the following responsibilities for DOA:

- establish accounts in addition to the transit and highway accounts;
- approve any loans for projects selected for assistance by DOT;
- distribute pledged revenues and proceeds from the sale of revenue bonds;
- enter agreements to provide additional security for transportation revenue bonds; and
- purchase or acquire, commit on a standby basis to purchase or acquire, sell, discount, assign, negotiate or otherwise dispose of, or pledge, hypothecate or otherwise create a security interest in, loans or portions or portfolios of participations in loans made by the state infrastructure bank.

25. In general, these provisions are related to the use of transportation revenue bonds. If transportation revenue bonds are not used as a funding source, provisions related to DOA could be removed from the bill.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to create a transportation infrastructure loan program and transportation infrastructure loan fund.

Alternative 1	PR
1997-99 FUNDING (Change to Base)	$100
[Change to Bill	*$0]*

2. Approve the Governor's recommendation to create a transportation infrastructure loan program and transportation infrastructure loan fund, with one or more of the following modifications:

a. Remove the provisions allowing DOT to transfer amounts from the freight rail infrastructure improvement, major highway development and state highway rehabilitation appropriations and, instead, require DOT to request amounts to be transferred to the loan fund using the process under s. 13.101(4) of the statutes.

b. Remove provisions allowing DOT to use transportation revenue bonds as the state's matching contribution for the receipt of federal assistance. Remove other provisions related to the use of revenue bonds and to DOA program responsibilities. Require DOT to administer the program.

c. Specify that DOT can not encumber any funds for projects under the transportation infrastructure loan program, other than funds appropriated directly to the program and federal funds received specifically for the purpose of creating a transportation infrastructure loan program.

d. Include one or more of the following entities in the list of applicants eligible for assistance under the program:

1. Amtrak;
2. railroads;
3. private, nonprofit organizations eligible for assistance under the elderly and disabled capital assistance program; or
4. transit commissions.

3. Take no action.

MO# 2 a, c, d (1,2,3,4)

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
1 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS 0

Prepared by: Rick Olin

Representative Albers

TRANSPORTATION

Transportation Infrastructure Loan Program

Motion:

Move to include local rail commissions as defined by state law in the list of eligible applicants.

MO# 1753

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
2 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
1 ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS 0

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Federal Highway Aid (DOT -- Transportation Finance)

[LFB Summary: Page 585, #3]

CURRENT LAW

Federal highway aid payments to Wisconsin have averaged $336 million annually over the last six years. The following table reports federal highway aid amounts by year:

Year	$ Million
1992	$324
1993	305
1994	341
1995	345
1996	331
1997	371

GOVERNOR

Estimate federal highway aid at $336 million in both 1997-98 and 1998-99. Estimate the use of federal highway aid at $371 million in 1997-98 and $336 million in 1998-99. The figure for 1997-98 includes $35 million in aid from federal fiscal year 1997 that would be "carried-over" from state fiscal year 1996-97 plus $336 million in new federal highway aid. That compares to federal aid of $331 million in 1995-96 and $371 million in 1996-97 (including the $35 million to be "carried-over").

DISCUSSION POINTS

1. Federal highway aid allocations to states are governed by the Intermodal Surface Transportation Efficiency Act (ISTEA). That Act became law in 1991 and will expire on September 30, 1997, the end of the current federal fiscal year. Expiration of ISTEA makes estimating future federal highway aid levels quite speculative. Uncertainty is attributable both to the level of overall program funding and to the formulas that will determine the allocation of funds.

Level of Funding

2. Federal motor fuel taxes and highway user fees are deposited in the highway trust fund and are segregated for transportation related uses. The fund can support spending of about $27 billion annually, but current spending totals only about $25 billion each year. Over the years, balances have accumulated within the fund and have been used to offset federal spending in other areas, thereby lowering the overall federal deficit.

3. As strategies have evolved to further reduce the federal deficit, there has been disagreement over the role of the highway trust fund. Proponents of transportation spending have argued that the finances of the fund should be excluded from the deficit debate since the fund is balanced. This would allow increased levels of highway spending in the coming years. Others, seeking to balance the total federal budget, have argued for continuing the current treatment that allows highway trust fund balances to accumulate and for maintaining current transportation spending levels. Still others have argued that transportation spending should be reduced by a percentage similar to that imposed in other areas of domestic spending.

4. Initially, the President's budget for 1998 proposed total transportation spending of $25 billion and highway spending of $18 billion, about the same as in 1997. Subsequently, Congressional leaders reached an agreement with the President on spending levels for the period between 1998 and 2002 that would achieve a balanced federal budget in 2002. During the week of May 19, both Congressional houses passed budget resolutions reflecting that agreement. Although minor differences between the resolutions have not yet been resolved, the resolutions would permit total transportation spending to increase by about $7 billion over the next five years. Therefore, reductions in the total amount of federal highway aid distributed to the states seem less likely over the next two years, and modest increases may occur.

Distribution of Available Funding

5. Adoption of the budget resolutions will likely shift the reauthorization debate from the highway aid funding level to the method for distributing aid. Thus far, debate over distribution formulas has focused on whether aid should be allocated on the basis of contributions to the highway trust fund or according to various measures of need.

6. Wisconsin and a number of other states have proportional contributions to the highway trust fund that exceed their percentages of funds returned as aid. They are called "donor" states and generally consist of midwestern and southern states and California.

7. Another group of states, which are generally in the northeast, argue that aid should be targeted to areas that need to improve their transportation infrastructure, due either to aging systems or congestion. Under ISTEA, the percentage of aid returned to these states generally exceeds their proportional contributions to the highway trust fund, so they are called "donee" states.

8. In general, the donor states support a bill sponsored by Senator John Warner, who is chairman of the Subcommittee on Transportation and Infrastructure of the Committee on Environment and Public Works. The Subcommittee is responsible for submitting a bill to the full committee, which will recommend a bill for passage to the Senate. Senator Warner's bill (S. 335) is referred to as "STEP 21" and proposes to simplify ISTEA and increase states' flexibility in using aid by consolidating a number of existing formulas and distributions into two existing programs, the national highway system and surface transportation programs. Under the national highway system program, aid would be distributed under a formula based on lane miles, vehicle miles traveled and diesel fuel use. Under the surface transportation program, apportionments would be based on state contributions to the highway account of the highway trust fund. Aid apportionments would be adjusted to guarantee each state at least 95% of its percentage contribution to the highway account of the highway trust fund.

9. In general, the donee states support a bill sponsored by Senator Daniel Moynihan and supported by Senator John Chafee, chair of the Senate Committee on Environment and Public Works, which will recommend a bill for passage to the full Senate. Senator Moynihan's bill (S. 586) is referred to as "ISTEA Works" and proposes to retain the basic ISTEA program structure and the distribution formulas for most of the existing highway aid programs. Apportionment adjustments would be based on population, rather than contributions to the highway trust fund, and additional adjustments would be made for states with high or low population densities.

10. At least two other proposals are receiving serious consideration. The Clinton administration's reauthorization proposal ("NEXTEA," S. 468) would retain almost all of the existing ISTEA programs and would offer three funding guarantees. Each state would be guaranteed to receive: (1) at least 90% of its percentage contribution to the highway account of the highway trust fund; (2) 90% of its prior year apportionments; and (3) 95% of its average apportionments under ISTEA. Another proposal, which is being advanced as a compromise proposal by Senator Max Baucus ("STARS 2000," S. 532), would retain much of the structure under the national highway system and surface transportation programs. That proposal would provide minimum allocations equal to 95% of each state's proportional contribution to the highway account of the highway trust fund and an adjustment for states with low population density or small land area.

11. The House and Senate committees have concluded hearing testimony on reauthorization proposals and are in the process of developing bills to be recommended to each house for passage. The budget process has delayed progress on reauthorization in both houses. Work on the bills is expected to continue through the summer and will not likely conclude before Labor Day. It is possible that a reauthorization bill will not be enacted prior to the expiration of the current law.

12. Wisconsin's percentage share of apportionments under the four proposals discussed above would range from 1.64% (ISTEA Works) to 1.97% (STEP 21) and average 1.84%. Allowing for some reductions in authorized amounts due to the obligation process, aid amounts could range from $308 million to $370 million. If Wisconsin's aid level equalled 1.84% of the total distribution, $345 million would be received annually. The $345 million figure is the annual estimate that serves as this office's projection of the funding level to be included in the 1997-99 state budget.

13. In light of recent federal budget developments, DOT believes federal aid under the reauthorization proposals could range from $277 million to $357 million, annually. At the low end of this range, DOT assumes that the nationwide amount of available funding could be reduced by $1 billion for highway-related projects or programs for which Wisconsin is not eligible. At the high end of the range, DOT assumes that the nationwide amount of highway aid for which Wisconsin is eligible will be the same in 1998 as in 1997.

14. The range in aid payments presented under Point 12 is higher than the DOT range because the former amounts assume a slightly higher nationwide distribution under the Congressional budget resolutions. Other factors that could increase the estimated amounts are an end-of-year aid adjustment that Wisconsin has received each year under ISTEA (about $5 million annually over the past three years) and an additional $8 million to $10 million in aid that could be authorized under a supplemental appropriations bill now before Congress. That bill supplements appropriations for federal fiscal year 1997, but any amounts received could be carried forward to the first quarter of 1997-98. The continued availability of end-of-year redistributions will depend on the actual language in the reauthorization bill.

15. In response to uncertainty over the level of federal highway aid for 1995-97, Act 113 included a provision requiring DOT to report to the Joint Committee on Finance on how it proposed to allocate federal aid amounts after the amount of federal aid became known. For each year of the 1995-97 biennium, DOT's proposal was to be submitted within 30 days of passage of a federal appropriations bill or by December 1, whichever was later. Adjustments to federal aid appropriations could not be made until approved by the Joint Committee on Finance.

16. Because the federal budget process concludes after the state's budget process, the amount of federal aid the state receives will not be known at the time the state's budget is adopted. One way to deal with this uncertainty would be to make the review process established in 1995 Act 113 permanent.

ALTERNATIVES TO BASE

1. Require DOT to annually submit a plan to the Joint Committee on Finance on how the Department proposes to allocate federal highway aid amounts after federal highway aid amounts become known. Require DOT to submit the plan within 30 days of the passage of the applicable federal legislation or by December 1 of each year, whichever is later. Prohibit DOT from making any adjustments to federal highway aid appropriations until approved by the Joint Committee on Finance.

2. Take no action.

Prepared by: Rick Olin

MO# Alt 1

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
1 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS 0

Senator George

TRANSPORTATION

Federal Highway Aid

Motion:

Move to require DOA and DOT to submit, under s. 13.10 of the statutes, to the Joint Committee on Finance for review at the September, 1997, meeting, a report on their efforts to reverse Wisconsin's position as a donor state under the federal highway aid program.

Require DOA and DOT to contact the state's Congressional delegation and inquire as to their efforts to reverse the state's donor position. Require DOA and DOT to include the responses of the state's Congressional delegation in the report.

MO# 1759

BURKE	Y	N	A
DECKER	Y	N	A
1 GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
2 COGGS	Y	N	A

AYE 16 NO 0 ABS 0

Motion #1759

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Revenue Bonding for Major Highway Construction and Administrative Facilities -- Bonding Authorization (DOT -- Transportation Finance)

[LFB Summary: Page 587, #4]

CURRENT LAW

Transportation revenue bonds have been used as a funding source for the major highway development and transportation administrative facilities programs since 1984. On April 23, 1997, the State Building Commission adopted a resolution establishing a commercial paper note program, which authorizes the issuance of short-term securities. At those notes' maturity, either additional commercial paper notes will be issued or the expiring notes will be converted to long-term bonds. The commercial paper notes are subordinate to transportation revenue bonds, but are counted against the revenue bonding authorization limitation established in the statutes. During the week of May 5, 1997, an additional $154.8 million in transportation fund debt was issued as commercial paper notes, rather than revenue bonds.

GOVERNOR

Increase revenue bonding authority by $139,786,700. Specify that a total of $179,158,900 be made available to fund construction projects. The $179,158,900 is based on the amounts that DOT projected would be needed in the next two biennia for the proposed major highway development program. Also, $627,800 would be available to fund the cost of the bonds' issuance. The additional funding for construction projects exceeds the increase in revenue bonding authority because the Governor's $40 million "write-down" veto of the amount of revenue bonding authority in 1995 Act 113 was ruled unconstitutional, thereby restoring the higher level of bonding authority included in Enrolled AB 557. However, the Governor's $40 million "write-down" veto in Act 113 lowering the limit on construction projects was not challenged.

DISCUSSION POINTS

1. Historically, short-term borrowing carries a lower interest rate than long-term debt and, consequently, its use can result in interest savings. This led DOA to recommend the creation of tax-exempt commercial paper programs, both for general obligation debt and for transportation revenue debt.

2. Development of these programs began last year, but all of the programs' components did not become final until the State Building Commission adopted resolutions creating the programs in March and April, 1997. As a result, the programs' impacts were not fully reflected in SB 77 at the time of its introduction.

3. One program component included in the State Building Commission resolutions is a guarantee that if the state is not able to make a repayment, a third party (bank) will make the repayment for the state. This guarantee is provided as a "line of credit" for the general obligation notes and as a "letter of credit" for the transportation revenue notes. A letter of credit provides greater security to potential investors and was used for the transportation revenue notes because the notes are backed only by vehicle registration fee revenues, as opposed to the state's full faith and credit. The need for a letter of credit for the transportation notes was not foreseen at the time SB 77 was introduced.

4. A letter of credit for the transportation revenue notes was provided by a group of three banks. The letter of credit requires the banks to make payments on the transportation revenue notes when they come due if the state is unable to make the payments. The inability to make a payment would result from not being able to "roll over" the transportation revenue notes into new notes or into long-term revenue bonds. To avoid this possibility, the banks supplying the letter of credit require the state to be able to roll over the notes into new notes carrying interest rates of up to 12%. The letter of credit requires the state to retain sufficient revenue bonding authority to issue additional notes for the purpose of paying interest on the rolled-over notes.

5. This requirement caused the state's May, 1997, issue of transportation revenue notes to consume $188.60 million in revenue bonding authority, even though only $154.75 million in notes were issued. The remaining $33.85 million in authority is being held in reserve to meet the 12% requirement. Based on anticipated borrowing needs during 1997-99, DOA anticipates an additional $28.53 million in reserve bonding authority will be needed to meet the 12% letter of credit requirement. The total additional bonding authority is not likely to be used since interest rates are not expected to increase to 12%. As the initial transportation revenue

notes are converted to long-term bonding, the reserve authority could be reused for future transportation revenue notes.

6. The state maintains a margin of approximately 4% between the levels of total bonding authority and bonding authority for projects. As submitted, SB 77 proposes total transportation revenue bonding authority of $1.26 billion and total authority for projects of $1.22 billion. The bonding authority estimated to be held in reserve during the 1997-99 biennium to meet letter of credit requirements exceeds the proposed margin between total authority and authority for projects. This would cause DOT to suspend the commercial paper program during the biennium and use more expensive long-term revenue bonds. An alternative would be to delay projects due to the unavailability of additional bonding authority for project funding.

7. DOA indicates that this situation could be avoided by increasing DOT's total bonding authority by $44,734,100 in addition to the amount proposed in SB 77. Additional authority for projects would not be provided. This modification would permit the continuation of the existing policy, which sets authorization levels at amounts that DOT projects will be needed in the next two biennia for the proposed major highway development program.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to increase revenue bonding authority by $139,786,700 and specify that $179,158,900 be made available to fund construction projects.

Alternative 1	BR
1997-99 REVENUE (Change to Base)	$139,786,700
[Change to Bill	*$0]*

2. Increase revenue bonding authority by $184,520,800 and specify that $179,158,900 be made available to fund construction projects. This would provide sufficient authorization to meet the reserve requirements under the commercial paper program, but would not affect the bonding authorization for projects proposed under the bill.

Alternative 2	BR
1997-99 REVENUE (Change to Base)	$184,520,800
[Change to Bill	*$44,734,100]*

3. Take no action.

Alternative 3	**BR**
1997-99 REVENUE (Change to Base)	$0
[Change to Bill	*- $139,786,700]*

Prepared by: Rick Olin

MO# Alt 2

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
1 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS 0

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Revenue Bonding for Major Highway Construction and Administrative Facilities -- Bonding Policy (DOT -- Transportation Finance)

CURRENT LAW

Transportation revenue bonds have been used as a funding source for the major highway development and transportation administrative facilities programs since 1984. As of the end of 1996, $750.6 million in revenue bonds were outstanding and payments on that debt were scheduled through 2022. During the week of May 5, 1997, an additional $154.8 million in transportation fund debt was issued. However, that debt consisted of commercial paper notes, rather than revenue bonds. On April 23, 1997, the State Building Commission adopted a resolution establishing a commercial paper note program, which authorizes the issuance of short term securities. At those notes' maturity, either additional commercial paper notes will be issued or the short term securities will be converted to long term bonds. The commercial paper notes are subordinate to transportation revenue bonds, but are counted against the revenue bond authorization limitation set forth in the statutes.

As has occurred in the past, most revenue bond proceeds in 1996-97 were appropriated for major highway development projects ($110.5 million), rather than for transportation administrative facilities ($2.8 million). Assuming no statutory increases in transportation fund revenues, DOT's forecasted bonding policy assumes that revenue bonds will continue to fund $110.5 million in highway projects annually, until STH 29 improvements are completed. In 2000-01, DOT assumes that construction funded by revenue bonds would decrease to the pre-STH 29 level and increase at the rate of inflation thereafter.

GOVERNOR

Use $35 million in federal aid carried over from 1996-97 to reduce the level of bonding in the major highway development program in 1997-98 by a corresponding amount. This would establish the use of bonding for this program at $75.5 million in 1997-98 and $110.5 million in 1998-99.

DISCUSSION POINTS

1. Prior to 1996, Wisconsin's disclosure report on state debt included a general policy statement indicating that revenue bonds would be used to cover approximately 55% of major highway construction costs. That statement was discontinued because revenue bond proceeds have provided over 55% of the funding for the major highway development program every year since 1990. In a report issued on January 15, 1997, the First Albany Corporation, a financial adviser to the state, characterized the 55% policy as "impracticable in light of ongoing program requirements."

2. Last session, DOT recommended funding 55% of the major highway development program with revenue bond proceeds, but the Legislature increased the level of funding from bond proceeds to 74.3% of the total funding for the major highway development program in the enrolled bill. After vetoes and adjustments for unanticipated federal highway assistance, revenue bond proceeds will comprise 66.9% of the funding for the major highway development program in the 1995-97 biennium. Table 1 reports the major highway development program's appropriations by funding source since 1990.

TABLE 1

Major Highway Development Program Appropriations, 1990 - 1999

Funding in Millions

Year	Revenue Bonds	State	Federal	Total
1990	$54.8	$24.0	$27.2	$106.0
1991	68.9	15.4	28.6	112.9
1992	104.7	10.4	31.1	146.1
1993	94.3	11.1	45.7	151.0
1994	106.1	8.7	42.0	156.8
1995	97.1	6.4	57.7	161.2
1996	108.5	6.4	50.6	165.6
1997	110.5	10.5	40.9	161.9
1998 (SB 77)	75.5	10.5	75.9	161.9
1999 (SB 77)	110.5	10.5	40.9	161.9

Percent Composition

Year	Revenue Bonds	State	Federal	Total
1990	51.7%	22.6%	25.7%	100.0%
1991	61.0	13.7	25.3	100.0
1992	71.6	7.1	21.3	100.0
1993	62.5	7.3	30.2	100.0
1994	67.7	5.5	26.8	100.0
1995	60.2	4.0	35.8	100.0
1996	65.5	3.9	30.6	100.0
1997	68.2	6.5	25.3	100.0
1998 (SB 77)	46.6	6.5	46.9	100.0
1999 (SB 77)	68.2	6.5	25.3	100.0

3. By using $35 million in unanticipated federal highway aid to replace revenues that would otherwise be provided through revenue bonds, SB 77 would reduce the percentage of major highway development funding provided by revenue bond proceeds in 1997-98 to 46.6%. That percentage would increase to 68.2% in 1998-99 as the distribution of funding for the program would equal that provided in 1996-97. Over the biennium, bond proceeds would provide 57.4% of the program's total funding.

4. Transportation revenue bonds differ from the state's general obligation bonds. State law provides that the state's full faith, credit and taxing power are pledged against general obligation debt, while state law pledges that vehicle registration fees will be used to repay transportation revenue bonds. When the state issues transportation revenue bonds, it attempts to

show prospective investors that the projected revenue stream of pledged revenues will be three times the required debt service. This relationship is characterized as a three to one, or 33%, coverage ratio because there are $3 of pledged revenues for each $1 of debt service. The state's policy of maintaining a three to one coverage ratio has resulted in high bond ratings that have lowered the cost of borrowing.

5. In its December, 1996, evaluation of transportation programs and revenues, the Legislative Audit Bureau (LAB) estimated the effects of continuing to provide $110.5 million annually in revenue bond proceeds as funding for the major highway development program. This analysis identified two issues. First, a registration fee increase is likely to be needed in 1999-2000 to maintain the three to one coverage ratio and another increase may be needed in 2003-04. Registration fees were last increased in 1991-92, so the period between fee increases is shortening. A second issue raised by the LAB analysis is that debt service is likely to exceed the revenue from bond proceeds in 2001-02.

6. Concerns over the level of debt service should be weighed against the recognition that the use of revenue bonds has permitted the construction of more state highways than would have otherwise occurred given the level of other available revenues. A basic public finance concept is that debt is an appropriate financing tool when the benefits of an investment will be extended into the future. As a result, the use of debt spreads part of the cost of a project over future users. This is referred to as intergenerational equity.

7. Some have argued that the current level of indebtedness may be too high relative to current transportation fund revenues. In 1997-99, gross transportation fund revenues are estimated to increase by $92.2 million, or 4.4%, over the base year doubled amount. Debt service on transportation revenue bonds is estimated to increase by $17.6 million, or 12.9%. This represents the largest expenditure increase in the proposed transportation budget.

8. In its 1997 report, the First Albany Corporation recommended that Wisconsin consider adopting a policy to stabilize debt service as a percentage of transportation fund revenues. Such a policy is intended to avoid instances where percentage increases in debt service requirements outpace revenue increases and thereby reduce amounts available to fund increases in other programs. First Albany characterized this policy as a "sustainability strategy." The administration employs a similar strategy relative to general obligation debt, which is structured so that GPR debt service does not exceed 4% of general program revenues.

9. Total debt service as a percentage of gross transportation fund revenues has increased from 5.2% in 1984 to 7.3% in 1997. Based on DOT's forecasted bonding policy, that percentage is expected to peak at 11.2% in 2005-06. Based on these historic and projected percentages, First Albany Corporation identified 10% as an achievable level of debt service as a percent of transportation fund revenues. Within this measurement, debt service would be defined to include all transportation fund debt service payments, whether for revenue bonds or general obligation bonds.

10. First Albany cautioned that there is no "industry standard" for defining the optimum level of debt service as a percent of transportation revenues and noted that states with aggressive bonding programs have percentages exceeding 10%. For example, the ratio is 40% in New Jersey, 33% in Connecticut and 13% in Michigan. The percentage target could be increased or decreased depending on how aggressively the state wants to use bonding as a mechanism to finance additional highway construction. However, a more aggressive bonding strategy would necessitate more frequent registration fee increases.

11. The recommended stabilization strategy would not eliminate the need for future registration increases, but registration fee increases may not be required in 1999-2000, as indicated in the LAB report. Based on a review of comparable bonding programs in other states and conversations with officials at the major credit rating agencies, First Albany concluded that a lower coverage ratio could be maintained "without prompting critical rating agency review." If a coverage ratio of 2.5 to 1 (40%) is the target, a registration fee increase would not be needed until 2002-03 under DOT's forecasted bonding policy. That is the same year that debt service as a percent of transportation fund revenues is projected to reach 10%, so a registration fee increase could be structured to maintain that percentage below the 10% target.

12. If a transportation fund revenue increase is enacted this session, an increase equivalent to that proposed by the Transportation Development Association (TDA) would maintain debt service as a percent of revenues below the 10% target at least through 2007. However, a registration fee increase would be required in 2004-05 to maintain the 2.5 to 1, or 40%, coverage ratio. TDA proposed an automobile registration fee increase of $10. The Transportation Finance Study Committee recommended that some "portion of any new revenue be devoted to reducing the need to bond at the levels contained in the 1996-97 budget."

13. Given the current structure of transportation fund revenues, the rate of increase in debt service expenditures is likely to exceed the rate of increase in transportation fund revenues for a number of years. This relationship is due in part to the increased reliance from 1990 to 1996 on bonding as funding for the major highway development program and also to the way that transportation revenue bonds have been structured.

14. The "sustainability strategy" is a long-term policy that will not result in near-term comparable rates of increase in debt service expenditures and transportation fund revenues unless the use of bonding is reduced, at least in the short term. SB 77 reflects this strategy by proposing to reduce the use of bond proceeds by $35 million in 1997-98 and by establishing the 1998-99 bonding level at the same amount authorized in 1996-97.

15. Sustainability could be further enhanced by reducing the use of bond proceeds to an amount equal to 55% of the major highway development program. Based on the total program size under the bill, the major highway development appropriations funded with bond proceeds would be set at $89,096,400 annually. If that level of bonding use is maintained, debt service as a percent of transportation fund revenues would remain below 10% until 2004. However, because the coverage ratio is projected to exceed 40% in 2003, a registration fee

increase in that year, or before, would reduce the ratio of total transportation debt service to total transportation fund revenues below 10%.

16. Because the sustainability strategy is a long-term policy, it involves planning for future as well as current funding levels. One way to do this would be to adopt a reporting requirement that relies on long-range planning and is similar to a report required under the clean water program. Under that requirement, DOA and DNR are required to submit a biennial finance plan by October 1 of each even-numbered year to the State Building Commission, the Joint Committee on Finance, and the standing committees of the Legislature having jurisdiction over natural resources matters. A statutory guideline has been established that seeks to maintain debt service costs from state water pollution abatement general obligation bonds at or below 50% of all state general obligation debt service costs. The report must include estimated funding needs for the next two biennia and the impact of the program proposed in the plan on the debt service guideline.

ALTERNATIVES TO BASE

1. Require DOT and DOA to submit a biennial finance plan by October 1 of each even-numbered year to the State Building Commission, the Joint Committee on Finance and the standing committees of the Legislature having jurisdiction over transportation matters. Require the report to contain estimates over the next five biennia of projected transportation fund revenues, proceeds from the sale of revenue bonds, funding for the major highway development program by funding source, vehicle registration fees pledged against the repayment of revenue bonds, debt service payments on transportation revenue bonds and general obligation bonds paid from transportation fund revenues and total transportation fund revenues, along with the assumptions used to arrive at those estimates. In addition, adopt one or both of the following:

a. Require the plan to include information on the impact of the level of bonding authorization included in the plan relative to the guideline that total transportation debt service expenditures should not exceed 10% of total transportation fund revenues.

b. Require the plan to include information on the impact of the level of bonding authorization included in the plan relative to the guideline that transportation revenue bond proceeds be used to fund no more than 55% of the major highway development program.

2. Take no action.

Prepared by: Rick Olin

MO# Alt 1(a,b)

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
1 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS 0

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Debt Service Reestimate (DOT -- Transportation Finance)

[LFB Summary: Page 587, #5]

CURRENT LAW

Base funding for debt service on transportation-related general obligation bonds is $7,886,600 SEG. The "base" revenue reduction for debt service on transportation-related revenue bonds is $70,414,800 (this has been reestimated at $68,521,800 since the "base" was established).

GOVERNOR

Increase the estimated revenue reduction for revenue bond debt service by $4,747,900 in 1997-98 and $10,737,800 in 1998-99. Estimate that gross vehicle registration revenues will be reduced by $75,162,700 in 1997-98 and $81,152,600 in 1998-99 in order to repay principal and interest on revenue bonds. The statutes require that debt service payments on transportation-related revenue bonds be deducted from vehicle registration revenues prior to their deposit in the transportation fund. Consequently, revenue bond debt service is shown as a reduction in revenues, not as an appropriation.

Decrease funding by $972,100 SEG in 1997-98 and $1,371,500 SEG in 1998-99 to reestimate the level of funding needed for payment of principal and interest on currently authorized transportation-related general obligation bonds at $6,914,500 in 1997-98 and $6,515,100 in 1998-99.

MODIFICATION TO BASE

Increase the estimated revenue reduction for revenue bond debt service by $3,664,500 in 1997-98 and $10,171,900 in 1998-99. Estimate that gross vehicle registration revenues will be reduced by $74,079,300 in 1997-98 and $80,586,700 in 1998-99.

Decrease funding by $972,100 SEG in 1997-98 and $1,371,500 SEG in 1998-99 to reestimate the level of funding needed for payment of principal and interest on currently authorized transportation-related general obligation bonds at $6,914,500 in 1997-98 and $6,515,100 in 1998-99.

> **Explanation:** The reestimates of debt service on revenue bonds are $1,649,300 lower than the estimates submitted by the Governor. This has the effect of increasing the amount of revenues otherwise available for expenditure. The reduction is due primarily to interest income on registration fees held by the trustee, which were not included in the original estimate. Vehicle registration fees are deposited initially with a trustee because those revenues are pledged for the repayment of principal and interest on transportation revenue bonds. After the repayments are made, the remaining revenues are transferred to the transportation fund along with any interest thereon. Although the current estimates reflect a change to the bill, these figures were incorporated in the transportation fund condition statement shown in LFB Paper #810. Therefore, this modification does not represent a change to the fund balance shown in that paper.

MO# Modification

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

in

AYE 16 NO 0 ABS 0

Modification	SEG
1997-99 REVENUE (Change to Base)	- $13,836,400
[Change to Bill	*$1,649,300]*
1997-99 FUNDING (Change to Base)	- $2,343,600
[Change to Bill	*$0]*